

## Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00

DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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R 311100Z JAN 77

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 1498

INFO AMEMBASSY LONDON

AMMBASSY BRUSSELS 5724

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EFIN CG

SUBJ: OUTLOOK OF ZAIRE'S EXPORT INDUSTRY: IMPLICATIONS FOR THE  
STABALIZATION PROGRAM

REF: A. LUBUMBASHI A-56, B) LUBUMBASHI A-57, C) KINSHASA 9878,  
D. KINSHASA 10573

1. SUMMARY: THE PRICES OF SOME OF ZAIRE'S EXPORT COMMODITIES  
ARE ON THE UPSWING. ZAIRE HOWEVER, WILL NOT BE IN A POSITION  
TO TAKE MAXIMUM ADVANTAGE OF THESE FAVORABLE PRICE TRENDS BECAUSE  
OF CONTINUING DIFFICULTIES IN PRODUCTION, TRANSPORTATION AND  
QUALITY CONTROL. NOTWITHSTANDING THE FACT THE 1976 DEVALUATION  
WAS DESIGNED TO EXPAND ITS CASH FLOW, MUCH OF THE EXPORT INDUSTRY  
REMAINS IN POOR FINANCIAL CONDITION. TO TAKE THE MOST IMPORTANT  
EXAMPLE, GECAMINES, ACCORDING TO LUBUMBASHI'S REPORTING (REF B),  
WILL REQUIRE A TAX REBATE FOR 1976 AND THE DURATION OF ITS EXPANSION  
PROGRAM THE FAILURE OF EXPORT INDUSTRY TO MAKE ANTICIPATED  
CONTRIBUTIONS TO GOVERNMENT REVENUE, OF COURSE, WILL ONLY  
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WORSEN THE GOZ'S OWN BUDGETARY DIFFICULTIES. THE REVISED  
STABILIZATION PROGRAM WILL HAVE TO ADDRESS THE QUESTION OF THE  
DIVISIO OF RESOURCES BETWEEN EXPORT INDUSTRY AND GOVERNMENT AND  
CONSIDER A VARIETY OF POLICY MEASURES SUCH AS ADJUSTMENTS IN  
EXPORT DUTIES, DEVALUATION, AND GUIDELINES FOR THE ALLOCATION  
OF LOANS UNDER THE \$250 MILLION PROGRAM PACKAGE TO BE ARRANGED  
BY CITIBANK. SINCE THESE PROGRAMS WILL PROBABLY IMPLY A RELATIVE

DECREASE IN RESOURCES AVAILABLE TO THE GOVERNMENT, EVEN TIGHTER BUDGETARY CONTROL WOULD APPEAR TO BE NECESSARY. END SUMMARY.

2. MINERAL PRICES RECOVER WHILE PRODUCTION PROBLEMS CONTINUE:

THE LME COPPER PRICE HAS RECOVERED TO JUST UNDER \$0.66/LB. ACCORDING TO THE HAN 6 BELGIAN PULICATION ECHO DE LA BOURSE, THE US IS A GROWING FACTOR IN THE WORLD COPPER MARKET; THE NET IMPORT REQUIREMENTS OF THE US ROSE FROM 90,000 TONS IN 1975 TO 340,000 TONS IN 1976, APPARENTLY AS A RESULT OF A PRECAUTIONARY BUILD-UP OF STOCKS BY US BUYERS WISHING TO HEDGE AGAINST THE POSSIBILITY OF A STRIKE IN THE COPPER INDUSTRY IN JUNE 1977. IF THE USG DECIDES TO INCREASE ITS STRATEGIC STOCKPILE OF COPPER AND OTHER MINERALS, AS WE UNDERSTAND HAS BEEN RECOMMENDED, THE US COULD BECOME A SIGNIFICANT NET IMPORTER. HIGH STOCKS (NOW NEAR 2 MILLION TONS WORLD WIDE, ACCORDING TO SOZACOM) WILL, HOWEVER, SLOW ANY SUBSTANTIAL RECOVERY IN COPPER PRICES.

3. COBALT PRICES PAID TO GECAMINES HAVE RISEN TO ABOUT \$5.31/LB., ACCORDING TO SOZACOM. AS RECENTLY AS 1975 GECAMINES RECEIVED ONLY \$3.50/LB. FOR COBALT. GECAMINES' COBALT PRODUCTION, HOWEVER, HAS SLIPPED FROM 17,500 TONS IN 1974 TO 13,644 TONS IN 1975 TO AN ESTIMATED (REF B) 11,000 TONS IN 1976.

4. ZINC PRICES RECENTLY ROSE TO ABOUT \$0.37/LB, SUBSEQUENTLY FALLING TO \$0.32/LB. GECAMINES BUILT UP LARGE STOCKPILES OF ZINC IN 1975 AND 1976 WHEN LOW PRICES AND HIGH TRANSPORT COSTS MADE IT UNPROFITABLE TO EXPORT THIS HIGH VOLUME, LOW VALUE PRODUCT. GECAMINES' EXPORTS OF ZINC FELL FROM 59,000 TONS IN 1974 TO 28,000 TONS IN 1975. THROUGHOUT THE FIRST ELEVEN MONTHS OF LIMITED OFFICIAL USE

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THE 1976 EXPORTS WERE PROCEEDING AT AN EVEN LOWER RATE. OUR CONSULATE AT LUBUMBASHI, HOWEVER, HAS REPORTED (REF B) THAT GECAMINES HAS NOW DRAWN DOWN ITS STOCKPILE OF ZINC AND HOPES TO EXPORT AS MUCH AS 70,00 TONS IN 1976, TAKING ADVANTAGE OF RELATIVELY HIGH PRICES PREVAILING AT THE END OF THE YEAR.

5. GECAMINES' PRODUCTION PROBLEMS HAVE BEEN WELL SUMMARIZED IN REF B. WE EXPECT THEY WILL CONTINUE, THOUGH PERHAPS LESS ACUTELY, IN 1977. WE ARE STRUCK BY THE FACT THAT EVEN AFTER DEVALUATION, LARGELY DESIGNED TO HELP EXPORTERS, GECAMINES STILL REQUIRES TAX REBATES TO MAINTAIN PROFITABLE POSTURE AND TO MAKE INVESTMENTS REQUIRED FOR THE EXPANSION PROGRAM.

6. TIN PRICES ROSE STEADILY THROUGHOUT 1976 AND RECENTLY REACHED THE EQUIVALENT OF \$4.55/LB. ON THE LME. ECHO DE LA BOURSE ON JAN 6 HAS FORECAST A 25,000 TON SUPPLY SHORTFALL IN 1977 WHICH SHOULD MAINTAIN UPWARD PRESSURE ON PRICES. ZAIRE CAN OPTIMALLY PRODUCE AND EXPORT ABOUT 1500 TONS OF TIN AND 6500 TONS OF CASSITERITE (TIN ORE) IN A GOOD YEAR. THESE PRODUCTION LEVELS

WERE NOT REACHED IN 1976. THE PRINCIPAL PRODUCER OF REFINED TIN, ZAIRETAIN, SUFFERED FROM LABOR, PRODUCTION, TRANSPORT AND SUPPLY PROBLEMS (REF A) AND WILL PROBABLY LOSE 35 PERCENT OF ITS PLANNED 1976 PRODUCTION. SIMILAR DIFFICULTIES ARE FACED BY SOMINKI, THE TIN AND CASSITERITE PRODUCER IN KIVU. EXPORT FIGURES FOR THE FIRST ELEVEN MONTHS OF 1976 INDICATE THAT ANNUAL EXPORTS OF TIN WILL PROBABLY TOTAL ABOUT 1000 TONS WHILE CASSITERITE EXPORTS WILL REACH ONLY ABOUT 5000 TONS.. AS WITH GECAMINES, THE OUTLOOK FOR ZAIRETAIN AND SOMINKI DEPENDS ON HOW WELL THE COMPANIES SUCCEED IN OVERCOMING PROBLEMS OF FUEL, FOOD, SPARE PARTS AND TRANSPORT. LIKE GECAMINES, THE TWO COMPANIES WILL HAVE TO IMPROVE THEIR FINANCIAL POSITION IF THEY ARE TO MAKE THE INVESTMENTS REQUIRED TO MAINTAIN AND

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INFO OCT-01 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00  
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04  
NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04  
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INCREASE PRODUCTION.

#### 7. AGRICULTURAL EXPORTS:

IF MINERAL PRICES ARE IMPROVING SLOWLY, PRICES FOR SOME OF ZAIRE'S AGRICULTURAL EXPORTS ARE BOOMING. AFTER DIPPING IN RESPONSE TO THE CONSUMER BOYCOTT, COFFEE PRICES ARE AGAIN OVER \$2.00/LB. FAR ABOVE THE \$0.47 FORESEEN BY THE BANK OF ZAIRE IN ITS PROJECTIONS FOR 1977. PART OF THE DISCREPANCY STEMS FROM THE FACT THAT ZAIRE PRODUCES PRIMARILY LOW GRADE ROBUSTA AND UNTIL RECENTLY MUCH OF ZAIRE'S CROP HAS BEEN TIED UP IN OLD CONTRACTS THAT DID NOT REFLECT CURRENT HIGH PRICES. THE BANK OF ZAIRE,

HOWEVER, HAS DISCOVERED THAT MANY OF THESE CONTRACTS WERE FRAUDULENT CASES OF UNDER-INVOICEING AND HAS INSISTED THAT THEY BE RENEGOTIATED TO INSURE THAT THE COUNTRY GAINS THE MAXIMUM ADVANTAGE FOR THE HIGH PRICES. IF 1977 EXPORTS REACH THE EXPECTED 80,000 TONS AND IF ZAIRE RECEIVES AVERAGE PRICES OF EVEN \$1/LB COFFEE EXPORTS WOULD BRING EARNINGS APPROACHING \$176 MILLION IN 1977 - MORE THAN DOUBLE PREVIOUS LEVELS. TO REALIZE THESE INCREASED REVENUES, ZAIRE WILL HAVE TO IMPROVE STORAGE AND INSPECTION LIMITED OFFICIAL USE

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PRACTISES SO THAT REJECTIONS OF ZAIRIAN COFFEE BY SUCH AGENCIES AS THE US FOOD AND DRUG ADMINISTRATION (WHICH EXCEEDED 14 PERCENT IN 1975) ARE MINIMIZED.

8. COCOA PRICES ARE ALSO RISING. THE CURRENT NEW YORK PRICE IS \$1.44/LB. POOR WEST AFRICAN HARVESTS HAVE CONTRIBUTED TO THE TIGHT SUPPLY SITUATION, ACCORDING TO ECHO DE LA BOURSE. AT PRESENT PRICES, A NORMAL CROP OF ABOUT 5,000 TONS WOULD BRING ALMOST \$16 MILLION. ROUGHLY THREE TIMES PREVIOUS EXPECTATIONS. ZAIRE'S EXPORTS IN 1976, HOWEVER, WILL PROBABLY ONLY REACH 4250 TONS AND THE 1977 HARVEST MAY NOT BE APPRECIABLY BETTER.

9. RUBBER PRICES ARE ALSO ON THE UPSWING, REACHING \$0.49/LB. ON THE LME IN NOVEMBER. ZAIRE COULD EXPECT TO GAIN EXPORT REVENUES OF \$32 MILLION IN 1977 IF PRICES HOLD AND PRODUCTION REACHES THE FORMER LEVEL OF 30,000 TONS. (BY CONTRAST, 1974 RUBBER EXPORTS FELL SHORT OF \$20 MILLION). EXPORT PRODUCTION, HOWEVER, IS FALLING SHORT OF EXPECTATIONS. IT NOW LOOKS LIKE 1976 EXPORTS WILL TOTAL ABOUT 21,000 TONS. A SIMILAR LEVEL OF EXPORTS IN 1977 WOULD GENERATE ABOUT \$23 MILLION IN EXPORT RECEIPTS AT PRESENT PRICES.

10. IMPLICATIONS FOR THE STABILIZATION PROGRAM:  
THE CONTINUING PROBLEMS OF THE EXPORT SECTOR HAVE IMPORTANT IMPLICATIONS FOR THE RESOURCES TRADE OFF BETWEEN THE EXPORT INDUSTRIES AND GOVERNMENT IN THE REVISED STABILIZATION PROGRAM. THE 1976 STABILIZATION PROGRAM WAS PARTLY DESIGNED TO TRANSFER RESOURCES FROM GOVT TO EXPORT INDUSTRIES WITH THE EXPECTATION THAT THIS WOULD MAINTAIN, AND EVENTUALLY INCREASE, EXPORT PRODUCTION. THIS STRATEGY HAS NOT BEEN SUCCESSFUL IN THE SHORT RUN. IN DEVISING A REVISED STABILIZATION PROGRAM, THE IMF AND THE GOZ WILL HAVE TO RE-ASSESS HOW THEY CAN PROVIDE THE EXPORT INDUSTRY WITH THE RESOURCES REQUIRED TO MAINTAIN PRODUCTION AND TO INVEST FOR FUTURE GROWTH. THE GECAMINES CASE SUGGESTS THAT IT MIGHT BE NECESSARY TO REDUCE EXPORT DUTIES FOR PRODUCTS WHOSE PRICES ARE RELATIVELY LOW. EACH LIMITED OFFICIAL USE

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TAX REBATE, HOWEVER, WILL ONLY EXACERBATE THE SHORT RUN REVENUE PROBLEMS OF THE GVERNMENT. ONE APPROACH MIGHT BE TO TRY TO RECOUP LOST GOVERNMENT REVENUES BY RAISING EXPORT TAXES ON PRODUCTS WHOSE PRICES ARE SO HIGH (E.G., COFFEE) AS TO BE PROVIDING WINDFALL PROFITS. AS REPORTED REF D) COFFEE EXPORT TAXES ARE RELATIVELY LOW. THIS POLICY CANNOT BE PUSHED TOO FAR WITHOUT RUNNING THE RISK OF DISCOURAGING RETURNING PLANTATION OWNERS AND THUS IMPINGING ON THE POLICY OF RETROCESSION.

THE FACT THAT MANY MEMBERS OF THE ZAIRIAN ELITE, INCLUDING THE MOBUTU FAMILY, HAVE HEAVY INTERESTS IN COFFEE WOULD ALSO DISCOURAGE ANY MOVE TO GREATLY INCREASE COFFEE EXPORT TAXES. ANOTHER APPROACH MIGHT BE A FURTHER DEVALUATION. THIS WOULD RAISE THE REVENUE OF BOTH EXPORT INDUSTRY AND GOVERNMENT. THE HIGH INCIDENCE OF SMUGGLING AND THE GROWING IMPORTANCE OF THE BLACK MARKET PROVIDE ADDED ARGUMENTS IN FAVOR OF A FURTHER DEVALUATION. THE EXPERIENCE OF THE LAST DEVALUATION, HOWEVER, INDICATES THAT THE BENEFICIAL EFFECTS OF DEVALUATION WILL BE PARTLY COUNTERACTED BY THE HIGH IMPORT AND DEBT SERVICE REQUIREMENTS OF THE ECONOMY.

THE IMF AND THE GOZ MAY LOOK TO THE CONTEMPLATED PRIVATE BANK CREDIT OF \$250 MILLION FOR HELP IN EASING THE TIGHT COMPETITION FOR RESOURCES BETWEEN THE EXPORT ORIENTED INDUSTRIES AND THE GOZ. THE IMF AND THE GOZ COULD CONCEIVABLY DEVELOP, AS A PART OF THE MORE GENERAL EXERCISE OF DRAWING UP A FOREIGN EXCHANGE BUDGET, GUIDELINES CHANNELING NEW EXTERNAL CREDITS INTO THE PARTS OF THE EXPORT INDUSTRIES WITH THE HIGHEST ECONOMIC RETURN. AT THE SAME TIME THE GOZ COULD ASSURE ADEQUATE FINANCING FOR THE TRANSPORT PARASTATALS ESSENTIAL FOR THE TRANSPORT SECTOR, SUCH AS SNCZ AND ONATRA. A NECESSARY COROLLARY OF ALL THE APPROACHES OUTLINED ABOVE WILL BE CLOSE ADHERENCE BY THE GOZ TO IMF GUIDELINES, PARTICULARLY ON BUDGET EXPENDITURES. IN FACT, THE PROSPECTS FOR THE EXPORT SECTOR IN 1977 DEPEND ON HOW FAR THE GOZ RESTRAINS ITS OWN ABSORPTION OF RESOURCES SO AS TO FREE RESOURCES FOR THE EXPORT SECTOR.

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